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SUBJECT: ECONADS: NAC MEETING, DECEMBER 3, AGENDA ITEM III:
REPORT ON RECENT ECONOMIC DEVELOPMENTS IN THE USSR
AND EASTERN EUROPEAN COUNTRIES

REF: A. STATE 263797
B. USNATO 6693
STATE 264718(ALL NOTAL)

SUMMARY. DECEMBER 3 COUNCIL DISCUSSION OF REPORT ON RECENT ECONOMIC DEVELOMENTS IN THE USSR AND EASTERN EUROPE FOCUSSED ON SLIGHT DEPENDENCE OF THE SOVIET UNION ON FOREIGN TRADE DESPITE THE RAPID RATE OF INCREASE, SOVIET'S CONTINUING INTEREST IN IMPORTS OF HIGH TECHNOLOGY FROM THE WEST; AND CURRENT FAVORABLE ECONOMIC POOSITION OF THE USSR COMPARED WITH THAT OF MOST OTHER WARSAW PACT MEMBERS. COUNCIL SUGGESTED FOOTNOTES TO CLARIFY SOVIET DEPENDENCE

ON FOREIGN TRADE AND APPROVED THE REPORT AS A REFERENCE DOCUMENT FOR THE MINISTERIAL. THE NAC SUGGESTED VARIOUS SUBJECTS FOR FURTHER STUDY BY THE ECONOMIC COMMITTEE, PARTICULARLY THE
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LONGER-TERM PROSPECTS FOR SOVIET SELF-SUFFICIENCY IN PETROLEUM AND THE POSSIBLE EFFECTS OF THE WESTERN ECONOMIC SLOWDOWN ON SOVIET EXPORTS AND EAST-WEST TRADE IN GENERAL. END SUMMARY

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1. ASYG PANSA OPENED DISCUSSION ON SUBJECT REPORT (C-M(74)85) BY RECALLING THAT IN VIEW OF THE INCRESING IMPORTANCE OF ECONOMIC FACTORS, THE COUNCIL HAD SPECIFICALLY REQURESTED (C-R(74)44) AN OPPORTUNITY TO DISCUSS THE ECONOMIC COMMITTEE'S REPORT ON RECENT ECONOMIC DEVELOPMENTS IN THE WARSAW PACT BEFORE IT IS PLACED (AS IS CUSTOMARY) AS A REFERENCE DOCUMENT ON THE MINISTERIAL AGENDA. PANSA SAID THAT THE REPORT SHOULD BE CONSIDERED IN THE LIGHT OF FINDINGS OF THE RECENT EXPERTS WORKING GROUP REPORT ON POLITICAL TRENDS IN THE SOVIET UNIION AND ESASTERN EUROPE (C-M(74)73). PANSA ALSO NOTED THAT IT IS IMPORTANT TO BEAR IN MIND THAT WHILE THE ECONOMIC GROWTH RATE OF THE USSR HAS OUTSTRIPPED THAT OF WESTERN INDUSTRIALIZED COUNTRIES DURING THE PAST YEAR, THE COMBINED GNP OF NATO IS STILL MORE THAN TWICE THAT OF THE WARSAW PACT.

2. AMBASSADOR SVART (DENMARK) SAID HE WAS PARTICULARLY PLEASED TO SEE THAT THE REPORT MENTIONS INFLATIONARLY PRESSURES IN THE SOVIET UNION AND EASTERN EUROPE, BECAUSE THEY DO EXIST ALTHOUGH THEY MAY NOT NECESSARILY BE FEFLECTED ENTIRELY IN RISING PRICES. HE ALSO CONCURRED IN THE REPORT'S FINDING THAT SMALLER EASTERN EUROPEAN COUNTIRES WITH GREATER DEPENCENCE ON FOREIGN TRADE WILL BE MORE AFFECTED BY DEVELOMENTS IN THE WEST. SVART AGREED THAT THE PRESENT OIL SITUATION WILL BRING ADVANTAGES TO THE USSR IN THE SHORT-TERM, BUT SAID HE DOUBTED THIS WOULD NECESSARILY BE TRUE IN THE LONGER-RUN AS SOVIET CONSUMTION INCREASES. HE SUGGESTED THAT THE ECONOMIC COMMITTEE LOOK INTO THIS QUESTION.

3. AMBASSADOR BRUCE SAID THAT WHILE WE BELIEVE THE REFERENCE IN PARAGRAPH 18 OF THE REPORT CONCERNING LEVERAGE THE SOVIETS HAVE IN COMECON AND THE LIMITS THIS WILL PLACE ON THE DEVELOPMENT OF EAST-WEST TRADE IS SPECULATIVE AND OVERDRAWN, THE U.S. APPROVES THE RE-PORT AS A REFERENCE DOCUMENT FOT THE MINISTERIAL AGENDA. BRUCE ADDED THAT THE U.S. WOULD BE INTERESTED IN THE VIEWS OF OTHER MEMBERS OF THE

ALLIANCE ON THE POSSIBLE EFFECTS OF THE WESTERN ECONOMIC SLOWDOWN ON WESTERN TRADE WITH EASTERN EUROPEAN COUNTRIES. MENZIES (CANADA) PICKED UP THIS POINT AND SAID THAT HE, TOO, WOULD LIKE TO SEE SOME ESTIMATE OF AREAS IN WHICH SOVIET EXPORTS MAY DECLINE DUE TO THE
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ECONOMIC SLOWDOWN IN INDUSTRIAL ECONOMIES. HE ADDED THAT CANADA, AS AN EXPORTER OF OIL AND OTHER RAW MATERIALS, IS IN AN ECONOMIC POSITION SOWMEWHAT SIMILAR TO THE USSR AND HAS NOTED A FALL OFF IN DEMAND FOR SOME MINERALS AND OTHER RAW MATERIALS. MENZIES ALSO SUGGESTED IT WOULD BE INTERESTING TO WEAVE IN THE IDEA OF TRIANGLE TRADE, ALTHOUGH HE NOTED THAT PROBABLY ONLY THE USSR AND CZECHOSLOVAKIA ARE IN A POSITION TO BENEFIT FROM ARMS SALES FOR PETRODOLLARS.

4. HARTOGH (NETHERLANDS) SAID HE WAS STRUCK BY THE CHANGE IN THE WEST'S ATTITUDE TOWARD CREDITS TO COMMUNIST COUNTRIES SINCE THE TIME HE WORKED WITH COCOM 20 YEARS AGO. HARTOGH SAID IT WOULD BE

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USEFUL TO HAVE A REPORT DEALING MORE FULLY WITH CREDITS TO THE
EASTERN BLOC. PANSA REPLIED THAT THE ECONOMIC COMMITTEE IS WORKING
ON SUCH A STUDY WHICH WOULD SOON BE READY FOR COUNCIL CONSIDERATION.

5. AMBASSADOR DE STAERCKE(BELGIUM) ASKED WHETHER IT IS STILLTURE
THAT THE USSR IS INTERESTED IN INCREASING IMPORTS FROM THE WEST.
HE NOTED THAT SOVIET INTERNATIONAL TRADE IS STILL EXTREMELY SMALL
IN RELATION TO WORLD TRADE AND CERTAINLY MARGINAL FOR THE SOVIET
UNION. DE STAERCKE SAID HE UNDERSTOOD THAT SOVIET DEFENSE INDUSTRIES
WERE VERY EFFICIENT AND THAT THE USSR IS SEEKING WESTERN TECHNOLOGY
ONLY FOR SPECIFIC INDUSTRIES, INCLUDING DEVELOPMENT OF
OIL AND GAS RESOURCES. ACTING ECONOMIC DIRECTOR DEBUNNE CONFIRMED
THAT AS OF MID-1974 TOTAL SOVIET TRADE HAD INCREASED 20 PERCENT OVER
THE SAME PERIOD OF LAST YEAR, AND THAT THIS WAS A NOTABLE RATE OF
INCREASE EVEN THOUGH THE OEVERALL VALUE WAS RELATIVELY SMALL. AT
THE REQUEST OF DE STAERCKE,CATALANO (ITALY), AND BOSS (FRG),
PANSA SAID FOOTNOTES COULD BE INCLUDED IN THE REPORT NOTING
THAT THE INCREASE IN SOVIET IMPORTS FROM THE WEST ARE SMALL
IN DOLLAR TERMS AND ESTIMATING WHAT THE INCREASE WOULD BE IN VOLUME
AFTER TAKING INFLATION INTO ACCOUNT. AMBASSADOR SVART SAID THAT
SINCE THE TIME OF LENIN AUTARKY HAS BEEN AN IMPORTANT PRINCIPLE
IN SOVIET THINKING, AND THAT THE SMALLNESS OF SOVIET FOREIGN
TRADE FIGURES SHOULD BE CONSIDERED IN THIS LIGHT.

6. RESPONDING TO DE STAERCKE'S COMMENTS ON THE EFFICIENCY OF THE
SOVIET DEFENSE INDUSTRY, DEBUNNE SAID THAT FOR MANY REASONS THE
USSR HAS TREMENDOUS DIFFICULITIES IN TRANSFERRING TECHNOLOGY AND
BRAIN POWER FROM THE MILITARY TO THE CIVILIAN FIELD. FOR THIS
REASON, THE IMPORT OF WESTERN TECHNOLOGY FOR MORE ADVANCED CIVILIAN
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INDUSTRIES, PARTICULARLY FOR THE EXPLORATION, PRODUCTION,AND
TRANSPORT OF PETROLEUM, COULD BE EXTREMELY VALUABLE FOR THE
SOVIET UNION.

7. THE COUNCIL APPROVED THE REPORT AS A REFERENCE DOCUMENT FOR THE
DECEMBER MINISTERIAL.
BRUCE

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